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Tokyo Announces Sweeping Tariff Changes

Against the backdrop of another outbreak of congresssional impatience with Tokyo's trade policies, the Japanese government June 25 filled in the details of the tariff changes it had promised in its April 9 package of market access initiatives (see JEI Report No. 14B, April 12, 1985). Included on the list of agricultural and industrial products slated for tariff cuts of at least 20 percent or duty-free treatment are roughly 1,800 of the 2,400-plus four-digit items in Japan's tariff schedule. While this coverage makes the pending round of unilateral tariff reductions the most sweeping in 14 years, it is no secret that the Foreign Ministry lobbied hard for a 25 percent across-the-board cut as tangible proof of the government's willingness to improve market opportunities in Japan for the exporters of other countries. This proposal ran

over three years. The Japanese also outlined plans to reduce the minimum size of the popular money market certificates and allow a wider range of maturities on certificates of deposit. The initial reaction by David Mulford, Assistant Treasury Secretary for International Affairs and leader of the U.S. group, was muted. Although the length of the timetable may be objectionable, Mr. Mulford reserved comment until the United States has time to study it. Nonetheless, he praised the Japanese for the steps already carried out. The two sides will meet again, most likely in the fall.

Jon Choy

Japan's Economic Growth Pauses In First Quarter

Highlighting the links between the free world's two largest economies, Japan's economic growth came to a near standstill during the first quarter of 1985, paralleling the U.S. economy's pause. The bad news included sharp declines in the growth of both business investment and exports (see table for details). Policymakers found a silver lining in the spurt of consumer spending and the continued growth of the housing component. With export indicators showing renewed activity, observers forecast that the economy will return to a level of moderate growth in coming quarters.

The drop in Japan's gross national product (GNP) growth in the first quarter was much steeper than the U.S. decline. The U.S. economy's inflation-adjusted growth rate shrank from 4.3 percent in the fourth quarter of 1984 to 0.3 percent in the next three-month period. In comparison, overall Japanese growth in real terms gained just 0.4 percent over the first three months of 1985 versus 9.9 percent for the previous quarter. In both cases, however, the weak first-quarter figures obscured some encouraging trends.

The brightest spot in the maze of Japanese statistics is the pickup in consumer spending. Policymakers have been concerned about this sector since it accounts for over half of GNP. Japanese consumers have remained tight-fisted even though the economy has been booming since the middle of 1983. This caution increased the economy's dependence on foreign demand, heightening trade frictions with the country's trading partners. For nearly a year, the government has been attempting to generate a more balanced recovery -- one in which businesses directed toward domestic demand prosper as much as export-oriented firms. The income-tax cut phased in during fiscal 1983 and 1984 proved to have a very limited effect on consumption as the growth of personal spending fell to 2.6 percent in the year through March 1985 from 3.1 percent the previous year. Fatter spring wage increases and summer bonuses, arising from record corporate profits, may have broken the psychological dam (see JEI Report No. 22B, June 14, 1985). The real test will be if sales of automobiles and other consumer durables make solid gains this summer and fall.

Continued growth in residential construction is also encouraging. After performing erratically since fiscal 1982, homebuilding has gained strength for three straight quarters, bringing its overall performance for fiscal 1984 to 2 percent, a sharp contrast with fiscal 1983's 8.7 percent contraction and the first positive contribution since fiscal 1978. Continued ceilings on government-subsidized home loans and recent increases in interest rates, however, have cast some clouds over the bright housing picture.

Japan's Real Gross National Product at Constant (1975) Prices

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1983	FY 1984	April-June 1984	July-September 1984	October-December 1984	January-March 1985
Gross National Product	Y213,584.3 (3.9%)	Y225,795.8 (5.7%)	Y221,934.9 (7.6%)	Y223,366.6 (2.6%)	Y228,719.4 (9.9%)	Y228,947.0 (0.4%)
Personal Consumption Spending	111,516.1 (3.1%)	114,410.0 (2.6%)	113,323.8 (1.5%)	114,054.3 (2.6%)	114,550.5 (1.8%)	115,560.1 (3.6%)
Private Residential Construction	9,865.8 (-8.7%)	10,062.0 (2.0%)	9,826.1 (-5.4%)	9,965.3 (5.8%)	10,198.7 (9.7%)	10,314.2 (4.6%)
Private Fixed Nonresidential Investment	37,230.3 (5.4%)	41,308.9 (11.0%)	39,678.7 (10.3%)	40,658.3 (10.2%)	42,311.4 (17.3%)	42,353.4 (0.4%)
Change in Business Inventories	977.6 (-26.5%)	1,404.5 (43.7%)	1,155.2 (267.0%)	1,485.9 (173.7%)	1,297.2 (-72.2%)	1,687.2 (186.2%)
Government Current Expenditures	19,872.1 (3.3%)	20,321.2 (2.3%)	20,152.2 (3.3%)	20,270.8 (2.4%)	20,321.6 (1.0%)	20,537.6 (4.3%)
Government Fixed Investment	18,216.7 (-1.4%)	17,989.3 (-1.2%)	18,368.9 (17.8%)	18,504.7 (3.0%)	17,935.6 (-12.9%)	17,284.0 (-15.3%)
Change in Government Inventories	-238.9 (*)	119.2 (*)	6.4 (*)	488.0 (*)	-47.5 (*)	13.9 (*)
Net External Sector	16,144.6 (28.9%)	20,180.7 (25.0%)	19,423.6 (36.5%)	17,939.3 (-37.4%)	22,151.9 (132.5%)	21,196.6 (-18.4%)
Exports of Goods and Services and Factor Income Received	44,059.6 (9.2%)	51,214.1 (16.2%)	49,462.1 (20.5%)	50,166.9 (5.8%)	53,083.2 (25.4%)	52,171.4 (-7.0%)
Imports of Goods and Services and Factor Income Paid	27,915.0 (0.3%)	31,033.4 (11.2%)	30,038.5 (11.4%)	32,227.6 (32.5%)	30,931.3 (-17.1%)	30,974.8 (0.6%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

Two components that powered the economic recovery in 1984 suddenly lost steam in the first quarter of 1985. The growth of private fixed nonresidential investment plummeted from 17.3 percent in last year's final quarter to just 0.4 percent, the smallest quarterly gain in several years. Given the fact that this sector racked up double-digit gains for the previous four quarters and has averaged above 7 percent since mid-1983, the decline is even more pronounced. Nevertheless, private-sector outlays for plant and equipment climbed 11 percent in fiscal 1984, twice the level of the previous year.

Part of the cutback in capital spending can be attributed to the sharp rise in business inventories, which generally indicates that capacity is sufficient to satisfy demand. Although this item is extremely volatile, it reached its highest level since 1982's third quarter during the first three months of 1985 -- an indication that the business cycle may be nearing its peak.

A more important factor in the investment cutback was the decline in foreign demand. Exporters experienced a sharp drop in shipments during 1985's first quarter, leading to a 7 percent decline in exports of goods and services on a national income accounts basis. Combined with stagnant imports, the net external sector contracted at an annual rate of 18.4 percent in the first quarter of 1985, again in sharp contrast to the upswing recorded in past quarters. Most analysts agree, however, that the outlook for exports is bright. Significantly higher limits on cars exported to the United States coupled with recovering European and third-world economies should provide a major boost to the external sector.

The public sector remains an ambivalent source of growth. The fiscal 1984 supplementary budget accelerated current expenditures in the last quarter of the fiscal year by pumping new funds into disaster relief activities. Government fixed investment, however, fell for the second consecutive quarter and is likely to remain on a downward spiral. Tight fiscal policies continue to hold sway with the government, a direction unlikely to change under Prime Minister Yasuhiro Nakasone.

As a result, the Japanese economy presents a mixed picture for fiscal 1984 and especially for the first three months of 1985. One point stands out, however: the continued dependence of the economy on foreign demand. Unless policymakers are successful in their search for non-fiscal sources of stimulus for the domestic economy, export dependence and trade frictions may persist.

Jon Choy

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The views expressed in this report are those of the authors and do not necessarily reflect those of the Japan Economic Institute.